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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)
SUBJECT: SERBIAN EMBASSY SAYS SOUTH STREAM "GUARANTEE"
ESSENTIAL TO NIS SALE

REF: A. BELGRADE 1222
[1](#)B. MOSCOW 2841

Classified By: Econ MC Eric T. Schultz for Reasons 1.4 (b/d)

SUMMARY

[1](#)1. (C) Serbian Embassy Counselor Boris Sekulic told us December 1 that Gazprom CEO Alexey Miller will be in Belgrade on December 5 to attempt to conclude an agreement on Gazprom's purchase of 51% of Serbia's national oil company, NIS (reftels). According to Sekulic, however, the Serbian government is insisting that the sale be explicitly packaged with a "firm guarantee" on the construction of the South Stream gas pipeline, a guarantee Gazprom has been unwilling to provide. Given pending sharp drops in gas export prices and the effects of the financial crisis, we are not convinced that Gazprom will be able to "guarantee" construction of a \$20 billion pipeline of dubious value. End summary.

NEED "FIRM GUARANTEE" ON SOUTH STREAM

[1](#)2. (C) In a December 1 meeting, Serbian Embassy Counselor Boris Sekulic told us that Gazprom's proposed purchase of 51% of NIS (reftels) was one of the main topics of discussion during the recent visit of a Serbian delegation led by First Deputy Prime Minister Dacic. According to Sekulic, Dacic met with Deputy Premier Igor Sechin (who has overarching responsibility for the energy sector) and conveyed Serbia's readiness to move forward with the long-pending deal.

[1](#)3. (C) Sekulic said Dacic made clear to Sechin that Serbia can only agree to the deal if Russia can provide a "firm guarantee" that the proposed South Stream gas pipeline, bringing gas from Russia, under the Black Sea, through Serbia (among other transit countries), would be built. Sekulic said the GOS is concerned by recent Gazprom statements indicating delays in the construction of the pipeline, which was originally to have been completed by 2013. According to Sekulic, South Stream is a central element of the package to which the GOS has agreed as part of the sale of NIS. Without it, the GOS doesn't see much reason to give Gazprom control of NIS.

[1](#)4. (C) According to Sekulic, Gazprom has been reluctant to provide the commitment the GOS seeks. Describing Sechin as "very friendly" toward the Serbian delegation, Sekulic said that Sechin assured them that "Gazprom is part of the Russian

government," which controls two-thirds of the Gazprom board, and that South Stream will be built. However, he said the two sides only signed a "protocol" during the visit, which stipulates feasibility studies for the pipeline will be prepared in the fourth quarter of 2009 and in 2010, with construction to begin in 2014.

15. (C) Sekulic said the GOS wants more. In the absence of a clear commitment that South Stream will be built, he indicated that Serbia might be willing to consider an additional financial inducement connected with the sale of NIS. For instance, Sekulic said, Serbia might accept subsidized gas sales if South Stream is not completed by a certain date.

16. (C) Sekulic said other elements of the package to which the two sides had agreed as part of the NIS sale, including a proposed 500 million euro investment in NIS by Gazprom and the construction of gas storage facilities, were not contentious. The 400 million euro price for NIS -- previously considered by many in the GOS and many analysts to be too little -- is looking much better in the context of the global financial and economic crisis, he said.

RUSSIA PUSHING TO CONCLUDE DEAL

17. (C) The protocol signed during Dacic's visit stipulates the deal be concluded by December 20. According to Sekulic, Gazprom CEO Alexey Miller will travel to Belgrade on December 5 to negotiate a final agreement, and the GOS believes Miller

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has been "given broad authority" to conclude the deal. Sekulic was skeptical of this deadline, however, repeatedly saying that negotiations with the Russians are "not easy."

18. (C) Sekulic also said he believes the deal has taken on more significance for the GOR in the aftermath of the Georgia crisis. He suggested Russia seeks a "victory" in the form of a successfully completed business deal to show cooperation with Russia is still welcome in Eastern Europe.

COMMENT

19. (C) The Serbs are right to be skeptical about South Stream. We believe Gazprom will find it difficult to move forward with the project. It is an expensive, complicated, and largely politically-motivated pipeline for which Gazprom may no longer have the funds: the credit crunch and financial crisis have hit Russia especially hard, gas export prices (which lag oil prices by about six months) are expected to drop sharply in 2009, and proposed increases in Russian domestic gas prices will likely be delayed. For that matter, we wouldn't rule out that Gazprom may even have problems financing the purchase of NIS, especially if they need to include subsidized gas.

BEYRLE